



DEPARTMENT OF DEFENSE

Further Actions Needed to Establish and Implement a Framework for Successful Business Transformation

Highlights of [GAO-04-626T](#), a testimony before the Subcommittee on Terrorism, Unconventional Threats and Capabilities, Committee on Armed Services, U.S. House of Representatives

Why GAO Did This Study

GAO has issued several reports pertaining to the Department of Defense's (DOD) architecture and systems modernization efforts which revealed that many of the underlying conditions that contributed to the failure of prior DOD efforts to improve its business systems remain fundamentally unchanged. The Subcommittee asked GAO to provide its perspectives on (1) the impact long-standing financial and related business weaknesses continue to have on DOD, (2) the underlying causes of DOD business transformation challenges, and (3) DOD business transformation efforts. In addition, GAO reiterates the key elements to successful reform: (1) an integrated business transformation strategy, (2) sustained leadership and resource control, (3) clear lines of responsibility and accountability, (4) results-oriented performance, (5) appropriate incentives and consequences, (6) an enterprise architecture to guide reform efforts, and (7) effective monitoring and oversight. GAO also offers two suggestions for legislative consideration that are intended to improve the likelihood of meaningful, broad-based financial management and related business reform at DOD.

www.gao.gov/cgi-bin/getrpt?GAO-04-626T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9095 or kutzg@gao.gov or Randolph Hite, (202) 512-3439

What GAO Found

DOD's senior civilian and military leaders are committed to transforming the department and improving its business operations and have taken positive steps to begin this effort. However, overhauling the financial management and related business operations of one of the largest and most complex organizations in the world represents a huge management challenge. Six DOD program areas are on GAO's "high risk" list, and the department shares responsibility for three other governmentwide high-risk areas. DOD's substantial financial and business management weaknesses adversely affect not only its ability to produce auditable financial information, but also to provide timely, reliable information for management and Congress to use in making informed decisions. Further, the lack of adequate transparency and appropriate accountability across all of DOD's major business areas results in billions of dollars in annual wasted resources in a time of increasing fiscal constraint.

Impact of Weaknesses in Human Capital Management, Internal Control, and Systems

Business area affected	Problem identified
Military pay	Ninety-four percent of mobilized Army National Guard soldiers GAO investigated had pay problems. These problems distracted soldiers from their missions, imposed financial hardships on their families, and had a negative impact on retention.
Logistics	Asset visibility and other logistical support problems hampered mission readiness during Operation Iraqi Freedom, including cannibalization of vehicles for parts and duplication of requisitions.
Travel	Seventy-two percent of the over 68,000 premium class airline tickets DOD purchased for fiscal years 2001 and 2002 were not properly authorized and 73 percent were not properly justified.
Property	New JSLIST chem-bio suits sold on the Internet for \$3 while at the same time DOD was buying them for over \$200. Further, thousands of defective suits, declared excess by DOD, were improperly issued to local law enforcement agencies—which are likely to be first responders in case of a terrorist attack.
Contract payments	Some DOD contractors were abusing the federal tax system, with little or no consequence. As of September 2003, DOD had collected only \$687,000 of unpaid federal taxes through a mandated levy program. GAO estimated that at least \$100 million could be collected annually through effective implementation of the levy on DOD contract payments.

Source: GAO.

Four underlying causes impede reform: (1) lack of sustained leadership, (2) cultural resistance to change, (3) lack of meaningful metrics and ongoing monitoring, and (4) inadequate incentives and accountability mechanisms. To address these issues, GAO reiterates the keys to successful business transformation and offers two suggestions for legislative action. First GAO suggests that a senior management position be established to spearhead DOD-wide business transformation efforts. Second, GAO proposes that the leaders of DOD's functional areas, referred to as departmentwide domains, receive and control the funding for system investments, as opposed to the military services. Domain leaders would be responsible for managing business system and process reform efforts within their business areas and would be accountable to the new senior management official for ensuring their efforts comply with DOD's business enterprise architecture.